

Message Text

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FOR HEGINBOTHAM

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TAGS: OVIP, OTRA (HEGINBOTHAM, ERLAND), RP

SUBJECT: YOUR FORTHCOMING SPEECH IN SEATTLE

FOLLOWING IS SUGGESTED TEXT FOR YOUR SPEECH IN SEATTLE
WHICH WE HAVE DEVELOPED FROM THE OUTLINE YOU LEFT HERE
JUST BEFORE YOUR DEPARTURE. BOTH EA/P AND EB HAVE READ
THE SPEECH AND CLEARED IT IN SUBSTANCE.

S. ECONOMIC RELATIONS WITH ASIA: A PATTERN FOR THE
FUTURE

1. I HAVE JUST RETURNED FROM A SHORT VISIT TO EAST ASIA,
WHERE I TOOK PART IN THE ANNUAL GOVERNORS' MEETING OF THE
ASIAN DEVELOPMENT BANK. ALTHOUGH THE ADB IS A REGIONAL
INSTITUTION, REPRESENTATIVES FROM MORE THAN 40 NATIONS
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WERE PRESENT AT ITS CONFERENCE. IN TERMS OF ECONOMIC
ACHIEVEMENT, ECONOMIC STRUCTURE, ECONOMIC SIZE AND
ECONOMIC POLICIES, THE COUNTRIES AROUND THE TABLE
REPRESENTED PRACTICALLY EVERY CONCEIVABLE VARIATION.
PRESENT WERE REPRESENTATIVES OF THE ADVANCED INDUSTRIAL
DEMOCRACIES, POPULOUS NATIONS LIKE INDIA, SMALL PACIFIC
ISLAND STATES, COUNTRIES WELL ENDOWED WITH NATURAL
RESOURCES, INCLUDING ENERGY AND OTHERS SERIOUSLY DEFICIENT

IN THOSE RESOURCES, COUNTRIES WHICH HAVE STRONG MARKET

ECONOMIES AND COUNTRIES LIKE VIETNAM WHICH HAVE A COMMUNIST ECONOMIC SYSTEM. DURING THESE TALKS MY ATTENTION WAS MAINLY FOCUSED ON THE MAJOR DEVELOPING COUNTRIES OF EAST ASIA, NOT ONLY BECAUSE THEY ARE PART OF MY AREA OF RESPONSIBILITY AT THE STATE DEPARTMENT, BUT ALSO BECAUSE, REGARDLESS OF SOME OF THESE DIFFERENCES AMONG THEM, THIS PART OF THE WORLD, I BELIEVE, REPRESENTS A UNIQUE SUCCESS STORY.

2. INDEED, THE ECONOMIES OF MOST EAST ASIAN COUNTRIES HAVE EXPANDED DRAMATICALLY IN RECENT YEARS. THEIR SAVINGS AND INVESTMENT RATIOS RELATIVE TO GNP HAVE BEEN AMONG THE WORLD'S HIGHEST. BY AND LARGE, THEIR AGRICULTURAL PRODUCTION AND PRODUCTIVITY HAVE KEPT PACE WITH THE GROWTH OF POPULATION. THE PROPORTION OF MANUFACTURING IN THEIR GNP HAS ROUGHLY DOUBLED DURING THE PAST DECADE. THEIR EFFORTS TO MAKE IMPROVEMENTS IN SUCH FIELDS AS HEALTH AND EDUCATION HAVE BEEN IMPRESSIVE. THEIR FINANCIAL STABILITY AND BALANCE OF PAYMENTS PERFORMANCE HAVE BEEN RESPECTABLE, DESPITE THE MAJOR STRAINS TRIGGERED BY THE ENERGY CRISIS AND THE WORLD RECESSION. MOREOVER, MUCH OF THE REGION HAS ENTERED THE MAINSTREAM OF THE WORLD TRADING SYSTEM WITH SURPRISING SUCCESS AND EASE.

3. THERE ARE, OF COURSE, MARKED DIFFERENCES IN THE UNCLASSIFIED

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ECONOMIES OF THE EAST ASIAN COUNTRIES. THE SO-CALLED NORTHERN TIER -- KOREA, THE REPUBLIC OF CHINA, HONG KONG, AND FURTHER SOUTH, SINGAPORE, ARE "SUPERACHIEVERS". THEIR ECONOMIC GROWTH RATES, (EVEN IN 1976, CERTAINLY NOT A VINTAGE YEAR FOR THE WORLD ECONOMY), WERE AROUND 10-15 PERCENT. UNDOUBTEDLY, THEY HAVE REACHED THE LEVEL OF SOPHISTICATED ECONOMIC MANAGEMENT AND EFFECTIVE SOCIAL AND ECONOMIC INSTITUTIONS WHICH WALT ROSTOW WOULD LABEL AS THE STAGE OF SELF-SUSTAINING ECONOMIC GROWTH.

4. THE SOUTHERN TIER -- THE PHILIPPINES, THAILAND, MALAYSIA AND INDONESIA -- FOLLOW NOT TOO FAR BEHIND, WITH GROWTH RATES IN THE 5-8 PERCENT RANGE. GIVEN AN IMPROVEMENT IN WORLD DEMAND CONDITIONS, AS WELL AS SUFFICIENT INTERNATIONAL FINANCIAL SUPPORT, THIS RATE OF EXPANSION COULD AND SHOULD BE INCREASED BY SEVERAL PERCENTAGE POINTS.

5. I DO NOT WISH TO BELITTLE THE PROBLEMS THAT THESE COUNTRIES FACE IN THE IMMEDIATE AND LONGER TERM FUTURE. WHILE THE REGION AS A WHOLE MAINTAINED A BALANCE BETWEEN FOOD PRODUCTION AND POPULATION GROWTH, THIS BALANCE IS IN

A PRECARIOUS STATE. MORE IMPORTANTLY, DESPITE

SUBSTANTIAL GAINS IN POPULATION CONTROL, THESE COUNTRIES STILL FACE MAJOR PROBLEMS OF PROVIDING INCREASED EMPLOYMENT FOR THEIR GROWING POPULATION OVER THE COMING DECADES. MANUFACTURING, ALTHOUGH EXPANDING, STILL CONSTITUTES A RELATIVELY SMALL SHARE OF NATIONAL PRODUCTION. MOREOVER, THEIR ECONOMIES, PARTICULARLY THE EXTERNAL SECTORS, ARE INSUFFICIENTLY DIVERSIFIED, AND THUS VULNERABLE TO CYCLICAL FLUCTUATIONS AND BALANCE OF PAYMENTS CONSTRAINTS.

6. WHILE THE ECONOMIC PROBLEMS IN EA ARE SEVERE, THEY HAVE NOT LED TO DESPAIR OR DESPONDENCY. ON THE CONTRARY, UNCLASSIFIED

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THE GOVERNMENTS OF THE REGION ARE FORMULATING NEW, MORE CONSTRUCTIVE STRATEGIES FOR ECONOMIC GROWTH TO DEAL WITH THESE DIFFICULTIES. THERE IS NO DOUBT IN MY MIND THAT EACH ONE OF THE COUNTRIES I HAVE MENTIONED IS PURSUING THE GOAL OF ECONOMIC DEVELOPMENT WITH DETERMINATION AND CONSIDERABLE SKILL.

7. AS AN ECONOMIST, I AM FASCINATED BY WHAT THE EAST ASIAN ECONOMIC EXPERIENCE SIGNIFIES. GIVEN THE HIGH DEGREE OF INTERDEPENDENCE BETWEEN THE ASIAN ECONOMIES AND THEIR CLOSE TRADE AND INVESTMENT LINKS WITH JAPAN, WE CAN SEE A "STEP DOWN EFFECT" -- A MODERN VERSION OF THE TRICKLE-DOWN THEORY OF ECONOMIC GROWTH. LET US TAKE THE JAPANESE ECONOMIC MIRACLE OF THE 1960S AS AN EXAMPLE. RAPID WAGE GAINS, ENVIRONMENTAL LIMITATIONS ON INDUSTRIAL GROWTH, THE MOVEMENT INTO TERTIARY SECTORS OF THE ECONOMY, THE GREATER EMPHASIS IN JAPAN ON THE QUALITY OF LIFE, THE CHANGING DEMOGRAPHIC STRUCTURE, ALL SUGGEST THAT JAPAN WILL NOT KEEP GOING AS A "GROWTH MACHINE". RATHER, ITS ECONOMIC PERFORMANCE OVER THE LONGER RUN WILL BE MORE ALONG THE GROWTH PATTERN OF THE OTHER ADVANCED INDUSTRIAL NATIONS. I MIGHT ADD THAT THESE SAME FACTORS, -- RISING WAGE RATES, ENVIRONMENTAL CONSTRAINTS, ETC. -- ARE ALSO CAUSING THE GRADUAL TRANSFER OF CERTAIN INDUSTRIES FROM JAPAN TO NEIGHBORING DEVELOPING COUNTRIES SUCH AS KOREA, TAIWAN, HONG KONG AND SINGAPORE. IF MY PREDICTIONS ARE RIGHT, THIS MOVEMENT WILL CONTINUE ON DOWN TO THE THIRD ECHELON -- LOWER-INCOME COUNTRIES OF MALAYSIA, THAILAND, THE PHILIPPINES AND INDONESIA.

8. LOOKING AT THESE DEVELOPMENTS IN EAST ASIA THE QUESTIONS WE NEED TO ASK OURSELVES ARE: IS THIS GOOD FOR THE UNITED STATES OR IS IT BAD? WHAT SHOULD BE OUR REACTION? WHAT ARE OUR OPPORTUNITIES, WHERE ARE THE PITFALLS? I AM CONVINCED -- AND I WOULD LIKE TO IMPART UNCLASSIFIED

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THIS CONVICTION TO YOU -- THAT EAST ASIAN ECONOMIC DEVELOPMENTS CAN BE HIGHLY BENEFICIAL TO OUR NATIONAL INTERESTS, THAT THEY GIVE US GREAT OPPORTUNITIES TO PROMOTE OUR OWN NATIONAL ECONOMIC INTERESTS AND THE GREATER PROSPERITY AND STABILITY OF THE WORLD. BUT THERE IS ALSO A DANGER THAT, IF OUR RESPONSE IS THE WRONG KIND, THE OPPOSITE MAY RESULT.

9. I BELIEVE THAT THE UNITED STATES ECONOMY CAN SIGNIFICANTLY BENEFIT FROM THE ECONOMIC DYNAMISM OF EAST ASIA. THE GROWTH OF THIS REGION WILL PROVIDE NEW TRADE OPPORTUNITIES FOR U.S. PRODUCTS, BETTER RETURNS FOR AMERICAN INVESTORS, AS WELL AS A MORE EFFICIENT INTERNATIONAL DIVISION OF LABOR. ADAPTING AND ADJUSTING TO THE RAPIDLY GROWING ECONOMIES OF THE EAST ASIAN COUNTRIES CAN MEAN THAT OUR OWN GROWTH PERFORMANCE COULD IMPROVE, THAT WE WILL BE ABLE TO MOVE OUR RESOURCES FROM OBSOLESCE AND LOW WAGE INDUSTRIES, HAVE HIGHER WAGE RATES AT HOME, A BETTER SUPPLY OF GOODS FOR OUR CONSUMERS AND LESS INFLATION.

10. THAT WE HAVE BENEFITTED FROM EA'S GROWTH ALREADY CAN BE SHOWN BY A FEW KEY STATISTICS. THE NORTHERN TIER COUNTRIES ARE NO LONGER AID RECIPIENTS. OUR TWO-WAY TRADE WITH THEM HAS GROWN FROM DOLLARS 1.2 BILLION A DECADE AGO TO DOLLARS 12.6 BILLION LAST YEAR. AMERICAN INVESTMENT IN THIS REGION HAS ALSO THRIVED, INCREASING FROM LESS THAN DOLLARS 650 MILLION IN 1966 TO DOLLARS 1.4 BILLION IN 1976.

11. A SPREAD OF THE ECONOMIC VITALITY OF NORTHEAST ASIA TO THE SOUTHEAST -- A REGION WHOSE POPULATION EXCEEDS THAT OF SOUTH AMERICA -- WILL SIGNIFICANTLY NARROW THE GAP BETWEEN RICH AND POOR COUNTRIES. THIS DEVELOPMENT WILL MOST LIKELY IMPROVE THE STABILITY OF THE WORLD,
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DIMINISH THE NEED FOR "RESOURCE TRANSFERS" FROM THE RICH TO THE POOR AND ALLOW MORE ROOM FOR BALANCED ECONOMIC TRANSACTIONS FOR MUTUAL GAIN. IT WILL, MOREOVER, BRING THE VIEWS OF THE DEVELOPING AND DEVELOPED COUNTRIES CLOSER IN THE ON-GOING DIALOGUE ON A NEW INTERNATIONAL ORDER AND CREATE A NEW BASIS FOR COOPERATION WITH THE THIRD WORLD. IT IS NOT ACCIDENTAL THAT THE INTERESTS OF THE MORE ADVANCED AND PROSPEROUS COUNTRIES OF EAST ASIA HAVE NOT BEEN PARTICULARLY VOCAL IN THE DEBATES BETWEEN NORTH AND SOUTH AND THAT IN MOST RESPECTS THEIR INTERESTS DO NOT DIRECTLY CORRESPOND TO THE EXTREME POSITIONS WHICH SOME OF THE GROUP-77 COUNTRIES HAVE TAKEN.

12. FOR THE UNITED STATES TO BENEFIT FROM THE ECONOMIC VITALITY OF EAST ASIA -- BOTH IN TERMS OF OUR ECONOMY AND IN OUR GLOBAL RELATIONS WITH THE THIRD WORLD -- IT IS ESSENTIAL THAT WE MAINTAIN AN OPEN ECONOMY. ALL THE ADVANTAGES I HAVE CITED COULD BE JEOPARDIZED, WERE THE UNITED STATES TO ADOPT INFLEXIBLE POLICIES WHICH WOULD IMPEDE THE GROWING ECONOMIC INTERACTION BETWEEN OUR COUNTRY AND THE EAST ASIAN NATIONS. WE WOULD THEN, IN EFFECT, BE OPTING FOR OBSOLESCEMENT, LOW PROFIT AND LOW WAGE INDUSTRIES. WE WOULD CREATE A NEW ERA OF PROTECTIONISM BRINGING WITH IT EMBITTERED SELF-DEFEATING TRADE COMPETITION. WE WOULD FORCE A DECLINE IN THE VALUE OF THE U.S. DOLLAR, FEED INFLATION AND CLOSE OFF ONE OF THE MAIN SAFETY VALVES TO EXCESS PRICE PRESSURES WITHIN THE U.S. WE WOULD INCREASE THE FRICTION BETWEEN US AND THE DEVELOPING COUNTRIES AND ISOLATE OURSELVES FROM OUR MAJOR INDUSTRIALIZED PARTNERS, SUCH AS WEST GERMANY AND JAPAN.

13. TO FEAR COMPETITION FROM LOW WAGE COUNTRIES IS SHORTSIGHTED, FOR THE DEVELOPMENT PROCESS BRINGS WITH IT ITS OWN REMEDIES; IT MEANS THAT THE U.S. ECONOMY WOULD GRADUALLY MOVE AWAY FROM LOW WAGE TO HIGH WAGE
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INDUSTRIES. JAPAN IS PERHAPS THE BEST EXAMPLE OF THIS ECONOMIC PROCESS.

14. PRESIDENT CARTER HIMSELF RECENTLY DEALT WITH THIS ISSUE STATING ON APRIL 15 THAT "TRADE CAN PLAY AN IMPORTANT ROLE IN THE FIGHT AGAINST INFLATION. IT IS AN EFFECTIVE MEANS OF IMPROVING EFFICIENCY AND MAINTAINING COMPETITION WITHIN AMERICAN INDUSTRY. WE GET THE BENEFITS OF LOWER PRICES AND GREATER PRODUCTIVITY WHEN WE EXPAND OUR PRODUCTION IN THOSE INDUSTRIES WHERE WE HAVE A COMPETITIVE ADVANTAGE COMPARED TO OTHER COUNTRIES, WHILE TRADING FOR THOSE GOODS WHICH WE FIND MORE COSTLY TO PRODUCE". ON THE OTHER HAND THE PRESIDENT IS NOT UNMINDFUL THAT EXPANDED INTERNATIONAL TRADE CAN HAVE DELETERIOUS EFFECTS HERE IN THE UNITED STATES. THIS MONTH HE CALLED UPON THE DEPARTMENTS OF LABOR AND COMMERCE TO DEVISE IMPROVEMENTS IN OUR ADJUSTMENT ASSISTANCE PROGRAMS FOR DOMESTIC INDUSTRIES HURT BY IMPORTS. WHAT THE PRESIDENT HAS IN MIND IS TO EXPLORE POSSIBILITIES WHICH GO WELL BEYOND OUR TRADITIONAL ADJUSTMENT ASSISTANCE LIMITED HERETOFORE TO MODEST ASSISTANCE TO FIRMS AND INDIVIDUALS AFFECTED BY FOREIGN COMPETITION. THE ADMINISTRATION IS EXPLORING THE REQUIREMENTS OF RESTORING THE HEALTH AND COMPETITIVENESS OF ENTIRE INDUSTRIES AND COMMUNITIES.

15. THUS YOU CAN SEE OUR GOVERNMENT IS NOT UNMINDFUL

OF THE PROBLEMS WHICH ACCELERATED CHANGE CAN BRING ABOUT,
SOME OF WHICH CAN BE QUITE PAINFUL. WE REALIZE THERE IS
ROOM FOR MEASURES WHICH MITIGATE PROBLEMS CONNECTED
WITH CHANGE. BUT THESE MEASURES CAN BE SO DEvised THAT
THEY FACILITATE THE ADAPTATION TO CHANGE RATHER THAN
OPPOSE OR HAMPER IT. WITH THE INITIAITIVE, THE
IMAGINATION AND THE MEANS, WE CAN COPE DOMESTICALLY
WITH TEMPORARY DISLOCATIONS. TRYING TO OBSTRUCT THE
FORCES OF EAST ASIAN ECONOMIC EXPANSION WILL ONLY FORCE
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US TO PAY A HIGHER PRICE IN THE LONG RUN, BOTH IN TERMS
OF OUR OWN NATIONAL WELFARE AND OUR INTERNATIONAL
RELATIONS.

16. RATHER WE SHOULD MAKE MAXIMUM USE OF THE ECONOMIC
PROGRESS IN EAST ASIA WHICH WE HAVE IN PART GENERATED.
WE SHOULD VIEW THIS REGIONS ECONOMIC PROGRESS AS AN
ASSET TO PEACE AND MUTUAL PROSPERITY.

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